HART SCHAFFNER & MARX

Thirty-Sixth Annual Report
November 30, 1946

EXECUTIVE OFFICES

36 SOUTH FRANKLIN STREET
CHICAGO 6, ILLINOIS

▼

BOARD OF DIRECTORS

EUGENE BASHORE	JOSEPH HALLE SCHAFFNER
MEYER KESTNBAUM	JOEL SPITZ
LESSING ROSENTHAL	CLAY E. STEELE

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OFFICERS

MEYER KESTNBAUM, *President*

MORRIS GREENBERG	*Vice-President*
W. RAY MANNING	*Vice-President*
BERNARD A. RITTERSPORN	*Vice-President*
HENRY H. MAYER	*Second Vice-President*
CLAY E. STEELE	*Secretary and Treasurer*
THOMAS E. DAVISON	*Comptroller*
MORRIS NEUFELD	*Assistant Secretary and Assistant Treasurer*

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TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois

Bankers Trust Company
New York 15, N.Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois

The New York Trust Company
New York 15, N.Y.

HART SCHAFFNER & MARX

CHICAGO NEW YORK

March 3, 1947

To the Stockholders of
Hart Schaffner & Marx:

The accompanying annual report submitted on behalf of your directors for the fiscal year ended November 30, 1946, reflects the most profitable year in the history of the company. Consolidated net profits amounted to \$3,423,126 as compared with \$1,645,860 for the previous year. Sales of the parent company and subsidiaries on a consolidated basis rose from \$33,805,246 in 1945 to \$45,808,460 for the year just ended.

It will be noted that higher inventories and accounts receivable, and additional investments in fixed assets have increased capital requirements. It is expected that this trend will continue. Inventories should be built up to levels consistent with normal and prudent operation. A number of the properties operated by retail subsidiaries should be modernized. It is sometimes necessary in this connection to make substantial improvements to leased premises. Two of the retail subsidiaries, namely, Baskins in Chicago and Silverwoods in Los Angeles, have undertaken to erect buildings under long-term leases. The new building on the corner of State and Adams Streets in Chicago is now in process of construction. Building operations on Wilshire Boulevard in Beverly Hills, Los Angeles, may begin during the current year.

Having in mind these additional capital requirements, your directors have considered it wise to maintain a conservative policy with respect to dividends. In the final quarter of 1946 the dividend rate was increased from 40 cents to 60 cents per quarter.

Negotiations conducted on an industry-wide basis led to the establishment in December 1945 of a retirement fund for union employees who are members of the Amalgamated Clothing Workers of America. The company contributes to a retirement fund administered by the union an amount equal to 3 per cent of the earnings of these employees.

In order to extend comparable benefits to employees who do not participate in a union plan, your directors recommend to the stockholders the pension plan which is described in the proxy statement. The annual cost to the company and its affiliates on account of future service is estimated at \$86,000 on the basis of the current payrolls. The company and its affiliates expect also to make payments at the rate of approximately \$138,000 per year for a period of ten years in order to accumulate past service credits for those employees whose prior service with the company is taken into account in determining retirement benefits.

The attention of the stockholders is directed to a change in the amount of the company's stock held in the treasury. In September 1946 your directors authorized the sale of 6850 shares of stock to a number of executives (not including the president) at a price of $40 a share, under an arrangement which enables these executives to pay for the stock over a period of five years. Since the close of the fiscal year the company has acquired approximately the same amount of stock at a price slightly below $40 a share.

For a number of years the demand for our product has been greatly in excess of our capacity to produce. This condition may continue for a number of months but the acute shortage of consumer goods is approaching an end and we must now be prepared to face changing conditions. Prices are higher as a result of a recent increase in wages throughout the industry. The problem of maintaining acceptable price levels under the impact of rising costs is becoming increasingly serious and we may expect operating margins to decline.

There are also favorable factors. Our adherence to quality standards has strengthened our relationship with our customers and with the consuming public. Your management is of the opinion that the company's position in the industry is relatively stronger than it has been for many years.

With the death of DeWitt Millhauser in April 1946 the company lost a distinguished member of its board of directors. For more than ten years we benefited from his rare wisdom and extraordinary ability. No adequate acknowledgment can be made of the great contribution which he made to the welfare of the company.

Respectfully submitted,
MEYER KESTNBAUM
President

HART SCHAFF

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AND SUBSIDIA

CONSOLIDATED

As of November 3

Assets

	1946	1945
Current Assets:		
Cash	$ 5,136,316	$ 6,002,306
U. S. Government securities—at cost	1,312,904	2,637,862
Notes and accounts receivable—		
Trade, less reserves for doubtful balances and discounts	3,324,191	1,843,351
Other	194,673	114,220
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower computed by the retail method	9,953,471	6,160,233
Total current assets	$19,921,555	$16,757,972
Other Assets:		
U. S. Government securities (at cost) and cash deposited in escrow for building purposes and deposits under leases	$ 825,000	$ 546,565
Notes of officers and employees for purchase of Company's common stock	260,300	—
Sundry investments (at cost) and loans, less reserves	141,758	92,652
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	41,938	37,306
	$ 1,268,996	$ 676,523
Properties—at cost:		
Shop equipment, furniture and fixtures	$ 3,974,377	$ 3,516,054
Reserve for depreciation	2,739,579	2,635,579
	$ 1,234,798	$ 880,475
Leasehold improvements—less amortization	1,111,476	404,367
Leaseholds—less amortization	257,813	7,758
	$ 2,604,087	$ 1,292,600
Deferred Charges:		
Prepaid rentals, insurance, supplies, etc.	$ 258,340	$ 206,600
Goodwill, Trade Names and Trade-Marks, at record value	$ 1	$ 1
	$24,052,979	$18,933,696

NER & MARX
Corporation)
Y COMPANIES
BALANCE SHEET
0, 1946 and 1945

Liabilities

	1946	1945
Current Liabilities:		
Accounts payable—		
Trade	$ 1,605,840	$ 821,227
Other	984,167	541,939
Accrued salaries, wages and rents	982,045	586,897
Accrued taxes (other than taxes on income)	227,142	186,024
Reserve for federal and state taxes on income	2,617,764	2,237,105
Total current liabilities	$ 6,416,958	$ 4,373,192
Minority Stockholders' Interest	$ 55,360	$ 32,451
Reserve for Contingencies	$ 700,000	$ 700,000
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares, par value $10.00 each	$ 3,750,000	$ 3,750,000
Surplus—		
Capital surplus	1,628,475	1,422,975
Earned surplus	11,625,861	8,847,253
	$17,004,336	$14,020,228
Deduct—Treasury stock—12,367½ and 19,217½ shares at par respectively	123,675	192,175
	$16,880,661	$13,828,053
	$24,052,979	$18,933,696

HART SCHAFFNER & MARX

(A New York Corporation)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS

For the fiscal years ended November 30, 1946 and 1945

PROFIT AND LOSS

	1946	1945
Net sales and operating revenues	$45,808,460	$33,805,246
Dividends from sundry investments, interest, and other income	177,363	135,477
Total	$45,985,823	$33,940,723
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	$31,895,110	$23,731,320
Depreciation and amortization	239,316	178,292
Selling, general and administrative expenses	8,086,584	6,065,655
Interest paid	37,638	13,658
Sundry income deductions	21,011	5,187
Minority interest in net profits of subsidiaries	23,159	14,149
Provision for taxes on income—		
Federal normal income tax and surtax	2,125,435	683,713
Federal excess profits tax	77,041	1,563,766
State income taxes	57,403	39,123
Total	$42,562,697	$32,294,863
Profit for the year carried to earned surplus	$ 3,423,126	$ 1,645,860

CAPITAL SURPLUS

	1946	1945
Balance at beginning of year	$ 1,422,975	$ 1,422,975
Difference between sale price and par value of treasury stock sold to officers and employees during year	205,500	——
Balance at end of year	$ 1,628,475	$ 1,422,975

EARNED SURPLUS

	1946	1945
Balance at beginning of year	$ 8,847,253	$ 7,770,645
Profit for the year from consolidated statement of profit and loss	3,423,126	1,645,860
	$12,270,379	$ 9,416,505
Dividends of $1.80 and $1.60 per share in 1946 and 1945 respectively	644,518	569,252
Balance at end of year	$11,625,861	$ 8,847,253

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx as of November 30, 1946, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1946, and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as of November 30, 1946, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmation in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1946, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO, ILLINOIS

January 16, 1947

FIVE YEAR RECORD OF EARNINGS

Years Ended Nov. 30†	Consolidated Net Income Total	Per Share*
1946	$3,423,126	$9.44
1945	1,645,860	4.63
1944	1,392,596	3.91
1943	1,631,319	4.59
1942	1,437,529	4.19

FIVE YEAR RECORD OF DIVIDENDS

Years Ended Dec. 31†	Total	Per Share*
1946	$644,518	$1.80
1945	569,252	1.60
1944	426,939	1.20
1943	494,095	1.40
1942	274,625	0.80

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†The consolidated net income (after appropriations for contingencies) is stated above on the basis of the fiscal year of the company. Dividends, however, are stated above on the basis of calendar years because a statement on a fiscal year basis would not be strictly comparable.

*For the years prior to 1944, the consolidated net income and dividends per share have been computed on shares outstanding, adjusted for the change in capital stock effective March 17, 1944. Actual amounts for such years per share of stock then outstanding were 2½ times the amounts shown above.